

# Utah Copper Division no longer the crown jewel of Kennecott

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Five years ago in better times — and when the price of byproducts such as molybdenum, gold and silver was high — you could have called the Utah Copper Division the crown jewel of Kennecott.

You would have to say it is the crown pain now, says Kennecott President G. Frank Joklik.

Everybody tells him, he says, the division is the biggest and best. Sure. But it also has the lowest copper grade of Kennecott's three main copper properties.

Copper prices are still well under cost of production. And gold? Prices are less than half of where they were during that fleeting moment a few years ago. Molybdenum is at about \$3.50 a pound compared to \$15. Silver's running \$9.60 an ounce compared to \$48.

And, it was a brutal winter, he says. That made for tough, tough operating conditions in Utah.

That's going to show up in the next quarterly report. The Ray, Arizona and Chino, New Mexico Divisions — even though they are losing operations — are going to look good compared to Utah.

But there're some bright prospects. The London Metal Exchange has reported a draw down on high-grade copper inventories.

LME's inventory reports are one of the better barometers in the uncertain world of metals forecasting, he says. And, for what it's worth, New York commodity exchange prices topped the 70 cents a pound mark at week's end for the first time since September.

Last year, the rumor mill had the Utah Copper Division closing down half a dozen times. It didn't.

And Alton W. Whitehouse, chairman of Standard Oil Company (Ohio) which has owned Kennecott since 1981, in town for a directors meeting a couple of weeks ago, told The Tribune there are no plans to close this year.

At the same time, he said, any decisions on that count are up to Joklik.

Later, in an interview, Joklik tells The Tribune, while there have been tremendous cuts in cost of production in Utah in the past two years and that while Sohio took on Kennecott as a long-term investment, that doesn't mean the unthinkable couldn't happen.

## PENALTY TOO HIGH

Shut down? But there is the argument that Kennecott couldn't possibly shut down in Utah. The penalty would be too high.

Indeed, it would be high, he answers. But there is a formula in the minerals industry, he says. When the cost of operations exceeds the cost of shutdown, you shut down. And there

have been times in recent months when cost of operations exceeded that critical point.

And it's not as though Kennecott hasn't had any experience in shutdown.

Look, he says, strike and shutdown were a triennial event for decades in the copper industry. Remember the nine-month strike in 1968-69? And even in his time at Kennecott as president, there was that nine-week strike in 1981.

If anyone knows how to shut down — and to start up — it's a copper company.

Locally?

The five years of sales tax forgiveness by the Legislature on new investment will help. And EPA's announcement of intent to accept the state standards on sulphur emission at the smelter — even though there are a couple of strings attached — also helps, he said.

"But more's got to be done."

Kennecott is still planning for the \$400 million overhaul of the transportation system at the Bingham Copper pit — and essential to further productivity improvement.

But it would take five years, from start to completion, before any production benefits could be realized.

Internationally?

Well, there's been progress.

Kennecott's spearheaded efforts got the amendments last November to the International Monetary Fund Bill that now restrains American commercial banks from financing projects of foreign countries when it appears that loan repayments would not only be met out of production but also subsidies by the foreign governments.

However, the bankers are still lending to Third World customers, he says, to help them cover their losses born of copper overproduction. And that only encourages more Third World production.

Further, it diverts those same Third World countries from putting their finances into other resources — e.g. agriculture and industrial opportunities — that would better serve them domestically and the world at large.

No doubt, one can make a case that U.S. lending is encouraged by the State Department as bulwarking those countries against the insinuations of international communism. Ergo, if we don't support the economies of Chile, Zaire and Zambia, they surely will

succumb to the red revolutionaries.

But there is certain irony in that position, says Joklik. In encouraging Third World copper industries, you kill off the U.S. industry, already bloodied by horrendous losses in money and employment.

And you may well end up with Third World dominion of copper production and the prospect of an OPEC-like copper cartel.

And, then, when demand picks up, or the U.S. faces a crisis in supply, watch out! You just don't bring back domestic mines and mills into production overnight.

## FUTURE EMPLOYMENT?

Future employment in Utah where Kennecott employs 4,700 now compared to 7,300 three years ago?

The bulk of the manpower trimming has been done, he says.

As for the copper market?

Well, given recovery in the world economies, Kennecott projects a demand increase of about two and a half percent yearly. And if the problem of world production increasing at an even faster rate can be licked, then Kennecott can look forward to better days.

And it has seen many days — good and bad — in Utah.

Its origins are the Utah Copper Company, a venture formed by mining engineer D. C. Jackling at turn of the century to mass mine the low-grade copper ores in the Bingham Mining District.

Later, the Morgan-Guggenheim interests buy shares of Utah Copper Company with profits from Morgan-Guggenheim's prolific Kennecott copper mine in Alaska. That property, with title misspelled because of a clerical error, was named after Robert Kennicott, a scientist who died of exposure in 1866 while leading an Alaskan expedition to map a Western Union route to link the U.S. with Europe via Siberia.

By 1915, "Kennecott" has 15 percent of Utah Copper, by 1923, undisputed control, and by 1936, sole ownership.

In 1969, Standard Oil of Ohio, is a small regional refiner. However, it takes over the position of British Petroleum Ltd., on the Alaska north slope, in exchange for shares of Sohio.

When the Alaskan pipeline environmental and Indian claims hassles are finally resolved, Sohio ends up with the largest oil and gas reserves of any company in the United States.

In 1981, Kennecott, enervated by expropriation of its Chilean properties, environmental issues, the forced divestiture of Peabody Coal Company, and a bitter proxy battle with Curtiss Wright Corporation, ends its corporate independence by accepting the welcome and resuscitating embrace of Sohio.

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